

TAPPY

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 89-601-W/S - ORDER NO. 90-650
JULY 3, 1990

IN RE: Application of Wild Dunes Utilities,)
Inc., for approval of new schedules) ORDER
of rates and charges for water and) APPROVING
sewer service provided to its customers) RATES AND
in its service area in South Carolina.) CHARGES

I.

INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the Commission) by way of an Application filed January 5, 1990, by Wild Dunes Utilities, Inc. (the Company or Wild Dunes) whereby the Company seeks approval of a new schedule of rates and charges for water and sewer service provided to its customers in its service area in South Carolina. The Application was filed pursuant to S.C. Code Section 58-5-240 (1976), as amended, and R.103-821 of the Commission's Rules of Practice and Procedure.

By letter dated February 9, 1990, the Commission's Executive Director instructed the Company to cause to be published a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's application and

advised all interested parties desiring participation in the scheduled proceeding of the manner and time in which to file the appropriate pleadings. The Company was likewise required to notify directly all customers affected by the proposed rates and charges. The Company furnished affidavits demonstrating that the notice had been duly published in accordance with the instructions of the Executive Director and certified that a copy of the notice had been mailed to each customer affected by the rates and charges proposed in the Company's Application. A Petition to Intervene was filed on behalf of Steven W. Hamm, the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

According to Wild Dunes' Application, the proposed rates and charges would increase water revenue by approximately \$152,000, or 45%, and sewer revenue by approximately \$175,000, or 64%. The Company's presently authorized rates and charges were approved by Order No. 87-1254 issued on November 4, 1987, in Docket No. 86-254-W/S. These rates were approved for Island Utilities, Inc. Island Utilities was transferred to Wild Dunes Utilities, Inc. on March 16, 1988 by Order No. 88-284 in Docket No. 88-19-W/S.

The Commission Staff made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Consumer Advocate likewise conducted its discovery in the rate filing of Wild Dunes.

A public hearing relative to the matters asserted in the Company's application was commenced in the Offices of the

Commission on May 9, 1990 at 11:00 a.m. in the Commission's Hearing Room. Pursuant to Section 58-3-95, S.C. Code of Laws (Cum. Supp. 1989), a panel of three Commission members composed of Vice-Chairman Marjorie Amos-Frazier, presiding, and Commissioners Mitchell and Yonce, was designated to hear and rule on this matter. Rex L. Carter, Esquire and Mitchell M. Willoughby, Esquire, represented the Company; Carl F. McIntosh, Esquire, represented the Consumer Advocate; and Marsha A. Ward, General Counsel, represented the Commission Staff.

The Company presented the testimonies of Kenneth M. Deaver, Regional Director of Operations for South Carolina and Georgia for Utilities, Inc., the parent company of Wild Dunes; Carl J. Wenz, Director of Accounting for Utilities, Inc. and Wild Dunes; and Dr. Edward W. Erickson, Professor of Business and Economics at North Carolina State University and Director of the NCSU Center for Economic and Business Studies. The Consumer Advocate presented Philip E. Miller, Riverbend Consulting, to testify to the Consumer Advocate's recommendations. The Commission Staff presented Vivian B. Dowdy, Public Utilities Accountant, and Raymond C. Sharpe, Public Utilities Rate Analyst, to report Staff's findings and recommendations.

II.

FINDINGS OF FACT

Based upon the Application, the testimony and exhibits received into evidence at the hearing, and the entire record of these proceedings, the Commission now makes the following findings of fact:

1. That Wild Dunes Utilities, Inc. is a water and sewer utility providing water and sewer service in its service areas within South Carolina, and its operations in South Carolina are subject to the jurisdiction of the Commission, pursuant to S.C. Code Ann. §58-5-10, et seq. (1976), as amended.

2. That the appropriate test period for the purposes of this proceeding is the twelve-month period ending June 30, 1989.

3. That by its Application, the Company is seeking an increase in its rates and charges for water and sewer service of \$326,849.

4. That the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments are \$610,861 which reflects a \$538 increase in per book revenues.

5. That the appropriate operating revenues under the approved rates are \$905,509 which reflects a net authorized increase in operating revenues of \$294,648.

6. That the appropriate operating expenses for the Company's South Carolina operations for the test year under its present rates and after accounting and pro forma adjustments are \$420,994, which

reflects an increase in per book expenses of \$18,347.

7. That the appropriate operating expenses under the approved rates are \$532,960.

8. That the Company's reasonable and appropriate federal and state income tax expense should be based on the use of a 34% federal tax rate and a 5.0% state tax rate, respectively.

9. That the Company's appropriate level of net operating income for return after accounting and pro forma adjustments is \$193,284.

10. That the appropriate net income for return under the rates approved and after all accounting and pro forma adjustments is \$379,255.

11. That a year end, original cost, rate base of \$2,411,791 consisting of the components set forth in Table B of this Order, should be adopted.

12. That the Commission will use the operating margin as a guide in determining the lawfulness of the Company's proposed rates and the fixing of just and reasonable rates.

13. That a fair operating margin that the Company should have the opportunity to earn is 26.92% which is produced by the appropriate level of revenues and expenses found reasonable and approved herein.

14. That the rate designs and rate schedules approved by the Commission and the modifications thereto as described herein are appropriate and should be adopted.

15. That the rates and charges depicted in Appendix A,

attached herein, and incorporated by reference, are approved and effective for service rendered on and after the date of this Order.

III.

EVIDENCE AND CONCLUSIONS

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 1

The evidence supporting this finding concerning the Company's business and legal status is contained in the Company's Application and in prior Commission Orders in the docket files of which the Commission takes notice. This finding of fact is essentially informational, procedural, and jurisdictional in nature, and the matters which it involves are essentially uncontested.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 2 AND 3.

The evidence for these findings concerning the test period and the amount of the revenue increase requested by the Company is contained in the Application of the Company and the testimony and exhibits of Company witness Wenz.

On January 5, 1990, the Company filed an Application requesting approval of rate schedules designed to produce an increase in gross revenues of \$326,849. The Company's filing was based on a test period consisting of the 12 months ending June 30, 1989. The Commission Staff and the parties of record herein likewise offered their evidence generally within the context of that same test period.

A fundamental principle of the ratemaking process is the establishing of a test year period. The reliance upon the test

year concept, however, is not designed to preclude the recognition and use of other historical data which may precede or postdate the selected twelve month period.

Integral to the use of a test year, representing normal operating conditions to be anticipated in the future, is the necessity to make normalizing adjustments to the historic test year figures. Only those adjustments which have reasonable and definite characteristics, and which tend to influence reflected operating experiences are made to give proper consideration to revenues, expenses and investments. Parker v. South Carolina Public Service Commission, et.al., 280 S.C. 310, 313 S.E. 2d 290 (1984).

Adjustments may be allowed for items occurring in the historic test year, but which will not recur in the future; or to give effect to items of an extraordinary nature by either normalizing or annualizing such items to reflect more accurately their annual impact; or to give effect to any other item which should have been included or excluded during the historic test year. The Commission finds the twelve months ending June 30, 1989, to be the reasonable period for which to make our ratemaking determinations herein.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 4 AND 5.

The evidence for the findings concerning the adjusted level of operating revenues is found in the testimony and exhibits of Company witness Wenz and Commission Staff witness Sharpe. (See, Hearing Exhibit Nos. 2, and 5)

The Company and the Staff agreed on the one adjustment to operating revenue based upon the Company's Application and the

Commission Staff Report. The Consumer Advocate did not propose any adjustments directly affecting operating revenues. Both the Company and the Staff proposed to adjust book revenues due to the annualization of present rates by \$538. This adjustment is appropriate for ratemaking purposes as it reflects the proper level of revenues for the Company.

Therefore, for the purposes of this proceeding, the appropriate operating revenues for the Company for the test year under the present rates and after accounting and pro forma adjustments, are \$610,861 which reflects a \$538 increase in revenues.

Using the Commission's Finding of Fact No. 13 and the Evidence and Conclusions, infra., approving a 26.92% operating margin, the Company's operating revenues after the approved increase are \$905,509.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 6, 7, AND 8.

Certain adjustments affecting expenses were included in the exhibits and testimony offered by witness Wenz for the Company, witness Miller for the Consumer Advocate, and witnesses Dowdy and Sharpe for the Commission Staff. This Order will address and detail only those accounting and pro forma adjustments affecting expenses which differed between the Company, the Consumer Advocate and the Commission Staff.

WATER SERVICE CORPORATION

The Staff and the Company proposed to adjust expenses for allocation of Water Service Corporation expense to Wild Dunes. Water Service Corporation is an affiliate of Utilities, Inc., the parent company to both Wild Dunes and Water Service Corporation. Water Service Corporation is a sister company to Wild Dunes, providing engineering, accounting, legal, financial, computer, and other types of services to Wild Dunes and other affiliated utility companies. These services are provided on the basis of a service agreement that has been in effect for a number of years. Some expenses of Water Service Corporation are charged directly to the affiliated utility companies on the basis of predetermined allocation ratios or some other factor, while other expenses are classified as indirect charges and are allocated to the operating companies via various allocation procedures. The Company adjusted expenses for Water Service Corporation on its per book amounts and then transferred those amounts to the appropriate accounts for Wild Dunes. The Staff transferred the expenses from Water Service Corporation to Wild Dunes and then made pro forma adjustments to those amounts. The basis for Staff's adjustments are provided in the Staff Report, Hearing Exhibit No. 5, Accounting Exhibit WSC-A2. Staff reduced Operating and Maintenance expenses by \$596.00, increased General expenses by \$216.00 and increased Operating Taxes by \$213.00 in its adjustment. This reduced the Company's per book amounts allocated to Wild Dunes by \$266.00 after Staff performed its allocations and reclassified the various amounts.

In making its adjustments, the Commission Staff reviewed the allocation procedures of the Company which were consistent with previous allocations from prior rate cases of affiliated companies. The Commission finds that Staff's adjustments are consistent with the approved allocation procedures and appropriately reflect the proper level of expenses associated with the services provided by Water Service Corporation to Wild Dunes. The Commission Staff's adjustments are hereby adopted.

ANNUALIZATION OF DEPRECIATION

Both the Staff, the Company, and the Consumer Advocate proposed to annualize depreciation expense based on year-end plant levels and depreciation rates. The Consumer Advocate concurred with the Company's adjustment of increasing depreciation expense by \$7,343.00. The Commission Staff proposed to reduce depreciation expense by \$8,165.00. Staff's adjustment uses straight line depreciation at 2%, a straight line 20% depreciation rate on transportation, does not adopt the Company's Plant Acquisition adjustment, nor does it include depreciation on Constructin Work in Progress (CWIP) completed after the end of the test year. The Company's adjustment reflects a 21-25% depreciation rate on transportation equipment and includes depreciation for that portion of plant acquired above the original cost and depreciation for CWIP completed after the end of the test year. In essence, with the plant acquistion adjustment, the Company is asking the ratepayers to pay for appreciated plant. Generally, in the course of a ratemaking proceeding, the Commission would require the Company to

show a quantifiable public benefit to the ratepayers in order to allow an acquisition adjustment that would reflect the Company paying more than the original cost for utility plant. While the Company demonstrated the benefits of having greater access to employees and equipment to repair and replace plant damaged by Hurricane Hugo and the additional crews within its resources in other jurisdictions, this merely demonstrates that Wild Dunes has access to resources from its parent and sister corporations. The Company did not sufficiently demonstrate a quantifiable benefit to show that the ratepayers of Wild Dunes were better off at the time of the acquisition than they would have been had Wild Dunes not acquired the system. The previous owner, the developer of the Wild Dunes resort, provided adequate service, maintained the system within DHEC guidelines and the Commission Staff received relatively few complaints. The Company presented no quantifiable benefits inuring to the ratepayers of Wild Dunes at the time of this acquisition. The Commission can find no direct benefit to the ratepayers by the mere fact that the system was acquired by Wild Dunes Utilities, Inc. Therefore, the Commission will not adopt the Company's acquisition adjustment, nor will the Commission allow depreciation on that portion of the Wild Dunes plant acquired above the original cost.

As to the inclusion of depreciation for various construction projects completed after June 30, 1990, the Staff opposed this proposal by the Company, as did the Consumer Advocate. While the Commission has generally allowed adjustments for certain items

occurring outside the test year as long as the items are known and measurable, depreciation on construction work in progress completed after the test year is not one of them. The Company has met the known and measurable test for this additional expense, however, the Commission's policy is to use as the cut-off date the end of the test year for CWIP. (See, Order No. 89-588, Docket No. 88-681-E) If the project is complete by the end of the test period, depreciation is allowed for the entire test year and the rate base is adjusted for plant in service. If the project is not complete, no depreciation is allowed, but CWIP is included in the Company's rate base with an offsetting adjustment to operating income for return for that portion of the interest on funds used during construction attributable to CWIP at the end of the test year. The Commission's treatment of CWIP achieves a proper sharing between the ratepayers and shareholders of the Company.

The Commission finds that the Staff's adjustment to reduce depreciation expense by \$8,165.00 properly reflects the depreciation expense based on year-end plant levels, appropriate depreciation rates and appropriate ratemaking principles. Staff's adjustment is adopted for ratemaking purposes herein.

DEPRECIATION AND INTEREST CHARGED AS RENT

The Staff and the Company proposed to eliminate depreciation and interest charged as rent to Wild Dunes for the home office in Northbrook, Illinois. These amounts are reflected in the Company's operating expenses. In previous Commission decisions (See, Docket No. 88-241-W/S, Order No. 89-573), the Commission has determined

that the interest charged as rent should be charged "below the line" and that the depreciation expense, gross plant and accumulated depreciation associated with the home office should be directly assigned or allocated to Wild Dunes for ratemaking purposes. Staff's adjustment eliminates \$5,889.00 from General Expenses and reflects the elimination of depreciation and interest charged as rent on the Company's share of home office facilities and is consistent with previous Commission practices. The Company proposed a similar adjustment but it varied from Staff's by a few dollars. The Commission finds Staff's adjustment to be appropriate for ratemaking purposes herein.

STATE SUPERVISOR'S TRANSPORTATION EXPENSES

The Commission Staff proposed to allocate a portion of the State Supervisor's transportation expenses to the Company. The State Supervisor is Ken Deaver. The Commission Staff proposed to allocate \$208.00 to operating and maintenance expenses. The Company had charged all of Mr. Deaver's transportation expenses to Carolina Water Service, a sister utility. The Commission has determined that the Commission Staff's adjustment is appropriate because that portion of Mr. Deaver's transportation expenses associated with Wild Dunes should be properly reflected in the Company's O&M expenses.

HURRICANE HUGO LOSSES

The Company, the Consumer Advocate, and the Staff proposed various adjustments to the Company's O&M expenses for various accounts related to Hurricane Hugo losses. All three parties

agreed that such costs associated with Hurricane Hugo should be amortized over a five-year period.

The Company, in its direct and rebuttal testimony, supported total Hugo losses of \$272,808.00 with an annual amortization over five years of \$54,561.00. The Commission Staff proposed to allow only \$27,620.00 to be amortized over five years, and the Consumer Advocate proposed that \$71,000.00 be amortized over five years. The Company's proposal includes \$163,182.00 in lost revenues prior to the Commission's decision date from Hurricane Hugo and \$57,908.00 of lost revenues after the Commission's decision date until all customers are reconnected to the Company's water and sewage systems. The Company has also included \$27,818.00 in in-house personnel expenses and other expenditures of \$23,900.00.

The Commission Staff, in reviewing the Company's proposal, eliminated \$4,700.00 of expenses that should have been capitalized; eliminated \$11,100.00 of expenses that should have been allocated to Carolina Water Service; eliminated \$4,054.00 of expenses that were attributable to the North Carolina jurisdictional utilities; increased expenses by \$907.00 for O&M expenses that were inappropriately allocated to Carolina Water Service; eliminated \$24,096.00 from O&M expenses representing three months of Company's operators salaries previously accounted for in the Company's salary and wage adjustment; and eliminated \$143,950.00 in lost revenues. The Commission Staff eliminated the "lost revenues" due to Hurricane Hugo. The majority of the Company's customers were off-line and many continue to be off-line and will not be

reconnected until approximately January, 1991. The Staff did not concur in the Company's adjustment for these "lost revenues" because this novel issue has not been addressed by the Commission in any previous decisions. The Consumer Advocate did not allow lost Hugo revenues in its proposal but did allow the Company to recover \$28,000.00 in personnel expenses and \$43,000.00 in other expenses.

The Commission has considered the wide variance in the proposals submitted concerning the Hugo losses. Hurricane Hugo was the most devastating natural disaster to strike South Carolina in recent times. According to the testimony presented, Hurricane Hugo destroyed or seriously damaged over one-third of the residences of Wild Dunes as well as the water and sewage system provided by the Company. The area in which Wild Dunes is situated was one of the hardest hit areas in the State. The Commission recognizes that many of the residences of Wild Dunes are not primary residences of their owners so the priority to reconstruct and return to service may not have been as high as a primary residence. The revenues that the Company did not receive due to the customers not being on-line presents a very unique problem to the Commission. The Commission is of the opinion that the consequences of Hurricane Hugo will present many unique problems to this Commission by its affected utilities. This is the first rate case proceeding presented to the Commission by one of the utilities affected by the destruction of Hurricane Hugo. The Commission is of the opinion that the uniqueness of Hurricane Hugo requires a unique but

equitable decision concerning the lost revenues to Wild Dune Utility, Inc.

The Company supplied information that indicates that for twenty days immediately following Hurricane Hugo, all customers were without water and sewage service. Of approximately 1,500 homes being served by Wild Dunes, 527 had their water and sewer services discontinued. As of the date of the hearing, 468 homes were still not receiving service, and of the 56 homes reconnected, most of those were reconnected so that construction work could be performed. The Company projects that normal service to the original customer base of approximately 1,500 homes will not return until January, 1991 at best. During this rebuilding time on Wild Dunes, the parent company of Wild Dunes Utilities, Inc., Utilities, Inc., has been supporting the operations of Wild Dunes Utilities, Inc. The loss of one-third of its customer base and the associated revenues, without outside support, would have spelled financial hardship.

The Commission and the Consumer Advocate recognize the uniqueness of this situation. In its Brief, the Consumer Advocate states that it is sympathetic to the hardship inflicted on the Company by Hurricane Hugo and is appreciative of the Company's efforts to restore service and repair the damage brought on by this severe storm. The Consumer Advocate, however, contends that lost revenues are not a maintenance and repair cost and as such should not be included in operating expenses. Beyond this, the Consumer Advocate contends that there is no ratemaking or accounting concept

which recognizes lost revenues. If revenues are not produced, they certainly do not exist as a revenue. The Company's proposal to include lost revenues as an operating expense is a unique proposal to this Commission. Company witness Wenz testified that even though witness Miller is correct that lost revenues are not maintenance expenses, the amount in that account was put there to consolidate the accounting process. Another account could be used, according to witness Wenz, but the nature would not change.

In recognizing the uniqueness of this situation, the Commission agrees with Witness Wenz and has determined that the lost revenues attributable to Hurricane Hugo may be included in O&M expenses and amortized over five years. This would include the revenues lost prior to the decision of this case of approximately \$163,000.00 and revenues lost after the decision in this matter which will approximate \$58,000.00. The revenues lost prior to the decision in this matter relate to revenues the Company would have received if all customers on line during the test year were on line through June 30, 1990, the date testified by the Company as the approximate date of the decision in this case. This approach spreads the cost over a broader base and over a longer period of time so there is no rate shock for this proposal. The Company's calculations are based on an average consumption per residential unit of 5,900 gallons and the Company reduced that number to 5,000 gallons to be conservative. By calculating the number of customers billed versus the number of customers on line during the test year, the Company was able to calculate the revenues lost to date. With

regards to revenues to be lost, the Company obtained information from various sources in the community as to when all customers are expected to return on line. The Company calculated that it would incur losses of \$58,000.00 before all customers were connected by January, 1990. By including the Hugo losses, coupled with the appropriate expenses attributable to personnel and other expenditures, the appropriate annual five year amortization adjustment to O&M expenses is \$49,758.00.

RATE CASE EXPENSES

The Company, the Staff and the Consumer Advocate proposed various adjustments to the expenses associated with this rate case over a three year period. In its filing, the Company proposed to amortize estimated expenses of \$50,000.00 over a three-year period. The Commission Staff, at the time of its audit, proposed only the actual expenses billed at that time be amortized over a three-year period. Staff's adjustment amounted to \$232.00. The Consumer Advocate took exception with the amount of the Company's filing. At the hearing, the Company updated its estimate to reflect the actual cost of this proceeding. The Company submitted supporting documentation at the hearing. The actual cost submitted by the Company for this rate case was \$20,758.00, which would result in an annual amortization over three years of \$6,919.00. The Consumer Advocate, in its Brief, agreed that the rebuttal testimony of the Company was an appropriate reflection of the actual costs incurred for this rate matter. The Commission has also determined that the testimony presented by rebuttal as to the actual rate case expenses

incurred is appropriate for ratemaking purposes and is adopted herein.

SALARIES AND WAGES

The Staff and the Company proposed to adjust salaries and wages. The adjustments are based on current wage rates, employee levels and the allocation of the State Supervisor for Carolina Water Service to Wild Dunes. The Consumer Advocate recommended that the Commission should reject the Company's proposed salaries and wages adjustment. It was the Consumer Advocate's witness's opinion that the Company's salary levels were exorbitant for a Company the size of Wild Dunes. Additionally, the Consumer Advocate could not verify whether the Company's proposed labor adjustments meet the known and measureable ratemaking standards. The Consumer Advocate also was concerned that none of the office salaries had been capitalized by the Company and that the operators' salaries and wages will increase 18% which is in excess of the current inflation rate. Witness Miller also recommended that the Commission order the Company to justify its salary levels in the next proceeding.

Staff's adjustment of \$12,843.00 to O&M expenses differs from the Company's adjustment of \$14,697.00 because of the allocation of the State Supervisor's salary. Part of Mr. Deaver's salary has been deferred by the Company so that only \$54,300.00 should be used to allocate that portion of his salary to Wild Dunes' O&M expenses. This would tend to decrease the alleged 18% increase to salaries and wages which concerns the Consumer Advocate. The Commission is

of the opinion that with the adjustment to Mr. Deaver's salary, Staff's proposals are in compliance with proper ratemaking methodology and Staff's adjustment is approved herein. The Commission will, as requested by the Consumer Advocate, require the Company to make an additional filing with its next rate application to include justification of its salary levels.

PAYROLL TAXES

Both the Company and the Staff, as well as the Consumer Advocate, proposed to adjust payroll taxes for the end of period salaries and wages adjustment. The Consumer Advocate, based on its opposition to the Company's salaries and wages adjustment, proposed that the payroll tax adjustment be rejected for the same reasons. The Commission Staff made an adjustment to the Company's payroll taxes which reflected the actual tax rates and limits. Staff's adjustment is net of the Company's income tax effect. The Company used a 5 1/2 percent state rate which caused its calculation to differ from the Staff's. The Commission, based on its recognition of the appropriateness of a salaries and wages adjustment, finds that an adjustment to payroll taxes is also appropriate. Because the Commission Staff's adjustment reflects the actual tax rates and limits, the Commission finds that a reduction to operating taxes of \$157.00 proposed by the Commission Staff should be adopted for ratemaking purposes herein.

PENSIONS AND BENEFITS

The Staff and the Company proposed to adjust pensions and benefits resulting from the end of period payroll annualization. The Consumer Advocate, based on its opposition to the salary and wage adjustment contends that the Company's proposed adjustment for pensions and benefits should likewise be rejected. Since the Commission has allowed an adjustment for salary and wages, it is appropriate for the Commission to likewise adjust pensions and benefits resulting from the end-of-period payroll annualization. Staff's calculation of \$3,554.00 added to general expenses reflects a difference in the per book amounts and the recalculation of health, life, and disability insurance. The Commission finds that the Commission Staff's adjustments to pensions and benefits are appropriate and are adopted for ratemaking purposes herein.

CAPITALIZATION OF PAYROLL EXPENSES

The Commission Staff proposed to capitalize a portion of the payroll and related adjustments involving operator's salary increases. The Commission Staff proposed adjustments to O&M expenses, general expenses, and depreciation to reflect that a portion of the operators' time would be spent related to maintenance of the system that would be devoted to permanent improvements. The Company is still in a construction phase since it completed after the end of the test year several construction projects and will begin construction of its reverse osmosis system soon. The Commission Staff based its adjustment on the amount of time an operator would spend in making capital improvements to the

system. Therefore, the Commission will adopt the Staff's adjustment which will capitalize a portion of the \$12,843 salary and wage adjustment. This will reduce O&M expenses by \$3,561.

GROSS RECEIPTS TAXES

The Staff proposes to true-up gross receipts taxes using the current tax rate and present revenues. The Company proposes to true-up gross receipts taxes using present revenues as contained in its application. The Company used a .01 tax rate while the Staff .0085, which is the current tax rate. The Commission finds that the Staff's adjustment which reflects the current and appropriate tax rate is proper and is hereby adopted for ratemaking purposes. Therefore, operating taxes will be adjusted by \$6,168.00 to true-up gross receipt taxes.

PROPERTY AND REAL ESTATE TAXES

Staff proposed to adjust property and real estate taxes to reflect a level based on current tax bills. The Company's adjustment included estimated sewer property taxes and current property tax levels. According to the Company, the method of assessing property tax has changed. Witness Wenz testified that the most significant factor is that the South Carolina Tax Commission is assessing sewage plant where it has not done so in the past. Witness Wenz provided an exhibit which calculated that the new tax would amount to an additional \$18,135.00. The Company also provided a copy of the tax return. Without making a determination that there has been a change in property tax assessments, the Commission is convinced that the Company will be

paying more taxes in the future. The Company's proposal, therefore, should be properly included in the ratemaking process and the Commission hereby approves an adjustment of operating taxes of \$18,135.00 to reflect the increase in property and real estate taxes.

PER BOOK TAXES

The Staff and the Company proposed to adjust per book taxes to reflect current tax rates as applied to taxable income. The Staff used a 34% federal tax rate and a 5% state income tax rate. The Company used a 34% federal tax rate and a 6% state income tax rate. Because the Staff used the appropriate state income tax rate, the Commission Staff's adjustment to reduce operating taxes by \$25,158 is hereby adopted for this ratemaking proceeding.

INTEREST SYNCHRONIZATION

Both the Staff and the Company propose to record to effects of interest synchronization of income taxes. The Staff and the Company differed in their adjustments because of differences in other proposed adjustments by these parties. Both the Company and the Staff used the accepted formula for the interest synchronization adjustment. For ratemaking purposes, the Commission will adopt the adjustment of the Commission Staff and will reduce operating taxes by \$4,731.00.

CUSTOMER GROWTH

The Company and the Staff proposed to record the effects of customer growth. The Company used a growth factor, while the Commission Staff used the formula as previously approved by this Commission to calculate the customer growth of \$478.00, which the Commission finds as being appropriate for ratemaking purposes.

MISCELLANEOUS

The Commission will hereby adjust general taxes, and state and federal income taxes to reflect all adjustments approved herein. All accounting and pro forma adjustments proposed by the Staff and not objected to by any other party are hereby approved. All other adjustments proposed by any party inconsistent therewith have been reviewed by the Commission and found to be unreasonable or inappropriate for ratemaking purposes and are hereby denied.

EVIDENCE AND CONCLUSIONS FOR FINDINGS OF FACT NOS. 9 AND 10.

Based on the Commission's determinations concerning the Accounting and Pro Forma adjustments to the Company's revenues and expenses, and its determination as to the appropriate level of revenues and expenses, (see, Evidence and Conclusions for Finding of Fact No. 13) net income for return is found by the Commission as illustrated in the following Table:

TABLE A

NET INCOME FOR RETURN

BEFORE RATE INCREASE

Operating Revenues	\$610,861
Operating Expenses	420,994
Net Operating Income	<u>189,867</u>
Interest During Construction	-0-
Customer Growth	3,417
Net Income for Return	<u>\$193,284</u>

AFTER RATE INCREASE

Operating Revenues	\$905,509
Operating Expenses	532,960
Net Operating Income	<u>372,549</u>
Interest During Construction	-0-
Customer Growth	6,706
Net Income for Return	<u>\$379,255</u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NO. 11

The evidence supporting these findings concerning proper methodology and level of cash working capital and proper items to be included in the Company's rate base can be found in the exhibits and testimony of Company witness Wenz, Consumer Advocate witness Miller and Commission Staff witness Dowdy. The rate base, as allocated to the Company's operations, is composed of the value of the Company's property used and useful in providing water and sewer service to the public, plus construction work in progress, materials and supplies, and an allowance for cash working capital and property held for future use; less accumulated depreciation, accumulated deferred income tax (liberalized depreciation) and customer deposits. The Accounting Department of the Administration

Division of the Commission Staff, prior to the date of the hearing, conducted an audit and examination of the Company's books and records, including rate base items, with plant additions and retirements. On the basis of this audit, the exhibits and the testimony contained in the entire record of the hearing, the Commission can determine and find proper balances for the components of the Company's rate base and other items.

The Commission's determinations relative to the Company's rate base for its water and sewer operations appear in the paragraphs below.

GROSS PLANT IN SERVICE

The Commission has traditionally used the regulatory accounting methodology recognized as "original cost less depreciation" in the determination of the value of a utility's plant in service. The record of the instant proceeding presents no justification for a departure from this methodology which was utilized by the Commission Staff in calculating the Company's jurisdictional gross plant in service per books of \$4,714,267. The Commission Staff proposed adjustments to Plant in Service for the effects of the Staff's adjustments to capitalize a portion of the end of period wage adjustment, eliminate none-allowable plant from WSC, capitalize certain Hugo-related expenditures and allocate a portion of the state supervisor's vehicle to Wild Dunes. Based upon the Commission's discussion and treatment of the depreciation expense attributable to CWIP completed after the test year end, the Commission approves Staff's adjustments to Gross Plant In Service.

The net effect of these adjustments is to increase Gross Plant in Service by \$6,055. The Commission finds \$4,720,322 to be the appropriate figure for the Gross Plant in Service.

ACCUMULATED DEPRECIATION

In determining the proper rate base for utilities, the Commission has consistently applied a methodology which reduces the figure for the gross plant used and use ful in providing public service by a reserve for depreciation and amortization. This reserve for depreciation and amortization for Wild Dunes' operations reflected a "per books" figure of \$553,313.

With the adjustments previously approved herein, the Commission is of the opinion, and, so finds, that the Company's per books reserve for depreciation and amortization for South Carolina operations of \$7,217 is appropriate. Consequently, the reserve for depreciation and amortization to be used for ratemaking purposes in the proceeding is \$546,096.

CONSTRUCTION WORK IN PROGRESS

This Commission has traditionally considered the reasonable and necessary costs of construction of utility plant not yet in service to be a proper rate base item. Such costs are described as construction work in progress. The Commission has uniformly allowed CWIP to be included in a utility's rate base with offsetting adjustment to operating income for return by that portion of the interest on funds used during construction attributable to the CWIP at the end of the test period.

In the instant proceeding, the Company proposed to reduce CWIP

but the Staff proposed no adjustments. See, depreciation discussion, supra, and Gross Plant in Service discussion. The Commission will adopt the amount of \$555,291 for ratemaking purposes herein.

CASH WORKING CAPITAL

The Commission has normally considered an allowance for cash working capital to be an appropriate item for inclusion in the rate base of a water and sewer utility. By permitting a cash working capital allowance, the Commission acknowledges the requirement for capital expenditures related to the routine operations of the utility. The Company's use of "as adjusted" figures in calculating its cash working capital allowance is not consistent with the Commission's accepted practice of using "per book" numbers in the calculation. Additionally, the Company proposed to include deferred charges in its rate base. This would include tank maintenance, deferred legal fees, etc., any item for which an expenditure had been made but for which the expense has not yet been reflected in the income statement. The Company requested that the Commission permit deferred charges to be included in the rate base and has proposed that the rate base be adjusted by increasing the level of deferred charges in the amount of \$132,323. The Company is asking the Commission to make a selective adjustment to its methodology for determining rate base. The Commission is of the opinion that the Company has presented no reason for the Commission to change its present method of excluding deferred charges from rate base. Therefore, the Company's proposal is

denied. The Commission hereby includes a 20 day cash working capital allowance of \$34,984 based upon Staff's calculations.

PLANT ACQUISITION ADJUSTMENT

The Company booked \$159,582 to its rate base which represents the amount above original cost less accumulated depreciation the Company paid to acquire the Wild Dunes system from Island Utilities, Inc. The Commission Staff eliminated that amount due to the fact that no quantifiable benefit to the Wild Dunes ratepayers was demonstrated by the acquisition and there was no prior approval by the Commission. Based upon the Commission's discussion supra, concerning inclusion of the depreciation expense associated with the Plant Acquisition Adjustment, the Commission denies the Company's proposal to include \$159,582 in rate base as a Plant Acquisition Adjustment.

ACCUMULATED DEFERRED INCOME TAXES

The accumulated reserves for Deferred Income Taxes resulting from liberalized depreciation and other items are considered by this Commission as an element on which investors are not entitled to earn a return and therefore should be excluded from rate base. The Commission finds that the amount to be deducted from rate base is \$59,369 as proposed by the Commission Staff.

CUSTOMER DEPOSITS

The amount representing customer deposits is considered an element upon which the Company's investors are not entitled to earn a return and is deducted from the Company's rate base. The Commission Staff proposed that the rate base be reduced by \$994

representing customer deposits.

The Company's rate base, as herein adjusted and determined by the Commission to be appropriate for the purposes of this proceeding, is set forth as follows:

TABLE B
ORIGINAL COST RATE BASE
JUNE 30, 1989

Gross Plant in Service	\$4,720,322
Reserve for Depreciation and Amortization	(546,096)
Net Plant	<u>\$4,174,226</u>
Construction Work in Progress	555,291
Contributions in Aid of Construction	(2,292,347)
Cash Working Capital Allowance	34,984
Accumulated Deferred Income Taxes	(59,369)
Customer Deposits	<u>(994)</u>
TOTAL RATE BASE	<u><u>\$2,411,791</u></u>

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS. 12 AND 13

Under the guidelines established in the decisions of Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United State Supreme Court noted in the Hope Natural Gas decision, supra, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce

revenues "sufficient to assure confidence in the financial soundness of the utility and...that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, supra, at 692-693.

Neither S.C. Code Ann., §58-5-290 (1976), nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues and investment in a historic test period because such examination provides a constant and reliable factor upon which calculation can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for ratemaking purposes involving utilities in Southern Bell Telephone and Telegraph Co. v. The Public Service Commission of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

For water and sewerage utilities, where the utility's rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction and book value in excess of investment the utility may request, or the Commission may decide, to use the "operating ratio" and/or "operating margin" as guides in determining just and reasonable rates, instead of examining the utility's return on its rate base. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues. The obverse side of this

calculation, the operating margin, is determining by dividing net operating income for return by the total operating revenues of the utility.

The Company presented Dr. Erickson to testify as to the appropriate rate of return on rate base. Dr. Erickson testified that a 15% rate of return on equity is appropriate for Wild Dunes. The Commission considered Dr. Erickson's testimony in light of his recommendations and with the operating margin approach in mind. Many of the reasons given by Dr. Erickson for applying a rate of return methodology to Wild Dunes' rate base for rate making purposes, e.g. it only operates in South Carolina, it is not diversified, it has a smaller revenue base than the comparable companies, it operates a smaller system, are also reasons to apply the operation margin approach in determining the appropriate level of revenues to determine the just and reasonable rates and charges.

In this proceeding, Table B demonstrates that substantial reductions for contributions in aid of construction leave the Company with a combined rate base of only \$2,411,791. The Commission is of the opinion that a rate base of this size does not provide an adequate gauge for use in determining rates. The Commission is aware that the Company is adding a significant amount of plant when it completes its reverse osmosis facilities. The Commission will consider the appropriateness of using the rate base to gauge the Company's earnings in a later filing, if so requested.

In this proceeding, the Commission will use the operating margin as a guide in determining the lawfulness of the Company's

proposed rates and if necessary, the fixing of just and reasonable rates. This method was recognized as an acceptable guide for ratemaking purposes in Patton v. South Carolina Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984).

The following Table indicates the Company's gross revenues for the test year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year:

TABLE C

Operating Revenues	\$610,861
Operating Expenses	420,994
Net Operating Income (Loss)	<u>\$189,867</u>
Add: Customer Growth	3,417
Total Income for Return (Loss)	<u>\$193,284</u>
Operating Margin (After Interest)	<u>9.46%</u>

The following Table shows the effect of the Company's proposed rate schedule, after accounting and pro forma adjustments approved herein:

TABLE D

Operating Revenues	\$939,224
Operating Expenses	545,767
Net Operating Income	<u>\$393,457</u>
Add: Customer Growth	7,041
Total Income for Return	<u>\$400,498</u>
Operating Margin (After Interest)	<u>28.21%</u>

The Commission is mindful of those standards delineated in the Bluefield decision, supra, and of the balance between the respective interest of the Company and of the consumer. The Commission has considered the spectrum of relevant factors in this proceeding, the revenue requirements for the Company, the proposed price for which the Company's service is rendered, the quality of that service, and the effect of the proposal upon the consumer, among others.

The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial-need objective, which takes the form of a fair-return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p.292.

The Commission has considered the proposed increase presented by the Company in light of the various standards to be observed and the interests represented before the Commission. The Company presented the testimony of Mr. Deaver who provided information concerning the extensive upgrades and repairs to the Company's water and wastewater treatment facilities. Hearing Exhibit No. 1. The Company relocated its office within the Wild Dunes area to

improve customer service and to be more accessible to contractors working on projects. The Company refurbished and painted the water tanks and improved and expanded the wastewater treatment plant and related ancillary equipment. The total capital investment to make the modifications and upgrades was approximately \$675,000.

Witness Deaver detailed the Company's system in place to respond to customer complaints. According to witness Deaver, the Company makes every effort to satisfy its customer once a complaint has been made. Complaints are responded to immediately and repairs are made as soon as possible. Operators are on call after hours to respond to emergencies. The Company experienced an increase in the number of complaints received between 1988 and 1989. Witness Deaver believed the increase in complaints was attributable to Hurricane Hugo. The Staff Report (Hearing Exhibit No. 5) indicated that the Commission Staff had received no service complaints during the test year and two previous years. Staff received two billing complaints during the test year and two previous years which were basic billing inquiries. The Commission received only five letters in opposition to the increase. Several letters complained about the flouride problem (which should be corrected by the reverse osmosis facilities soon to be added but not a part of this rate proceeding) and the amount of the proposed increase. The Commission has considered the impact of the proposed increase on the Company's ratepayers.

The Commission must balance the interests of the Company -- the opportunity to make a profit or earn a return on its

investment, while providing adequate water and sewerage service -- with the competing interests of the ratepayers -- to receive adequate service at a fair and reasonable rate. In balancing these competing interests, the Commission has determined that the proposed schedule of rates and charges is unjust and unreasonable and inappropriate for both the Company and its ratepayers.

Upon this finding it is incumbent upon the Commission to approve rates which are just and reasonable, not only producing revenues and an operating margin within a reasonable range, but which also distribute fairly the revenue requirements, considering the price for which the Company's service is rendered and the quality of that service. The Commission finds that the Company has expended a considerable amount to improve and upgrade the water and sewerage system so that its customers may continue to receive adequate service. The Commission finds that while the proposed level of revenues and corresponding rates and charges are unreasonable, the level of revenues determined to be reasonable results from the Company's efforts in improving the system, repairing and recovering from Hurricane Hugo (see, discussion concerning lost revenues), and having adequate employees available to respond to complaints as well as maintain the system, among others. In light of those factors as previously discussed and based upon the record in the instant proceeding, the Commission concludes that a fair operating margin that the Company should have an opportunity to earn is 26.92%, which requires annual operating revenues of \$905,509. The following table reflects an operating

margin of 26.92%:

TABLE E

Operating Revenues	\$905,509
Operating Expenses	532,960
Net Operating Income	<u>\$372,549</u>
Add: Customer Growth	6,706
Total Income for Return	<u>\$379,255</u>
Operating Margin (After Interest)	<u>26.92%</u>

While the Commission is aware of the impact on the customers of granting additional annual revenues in the amount of \$294,648, the Company has provided justification for such an increase, and the schedule of rates and charges approved herein depict just and reasonable rates.

EVIDENCE AND CONCLUSIONS FOR FINDING OF FACT NOS.

The Commission will spread the increase among the various services offered by the Company in the following manner:

WATER

The Company is currently charging \$9.00/month for its basic facility charge (BFC) for water service. This will not change for residential customers, but commercial customers will pay a \$9.00/month BFC based upon single family equivalents (SFE's).

The Company proposed to increase the commodity charge for water from \$1.25/1,000 gallons to \$2.28/1,000 gallons for both residential and commercial customers. To achieve the approved operating margin and level of revenues, the proposed commodity charge should be reduced to \$2.20/1,000 gallons. Concomitantly, the proposed irrigation charge should be reduced to coincide with

the approved commodity charge of \$2.20/1,000 gallons.

The Company proposed to bill a tenant for water service for the convenience of a property owner. The proposal, however, is inconsistent with the Commission's Rules and Regulations for Water Utilities, R.103-700 et.seq., S.C. Code of Laws (Vol. 26, 1976), as amended. Therefore, the Commission will delete the proposal from the Company's rate schedule.

Another change in the Wild Dunes' rate schedule concerned restructuring the Company's water service connection of \$300/SFE and its water tap fee of \$300 for residential customers and a major restructuring for commercial customers. The Company proposed a water service connection fee of \$100/SFE and a plant impact fee of \$700/SFE for both residential and commercial customers. This represents the Company's recognition that the water service connection fee represents the cost of providing to tap to a new customer on the water system and the plant impact fee represents the cost to the Company in the form of plant capacity that the new customer takes from the existing system. Wild Dunes supplied the Commission with information that it has been required to correct a flouride problem in its water system and that the reverse osmosis system it intends to install to obviate the problem will cost approximately \$1 million. Monies collected in the form of a plant impact fee would be used by the Company for such purposes. The Commission has determined that the new water service connection fee and plant impact fee should be approved.

The Company supplied the Commission with information relating

to future improvements of a substantial nature which the Company would be required to perform. While the Commission does not set monthly rates on items that are not known and measurable and are subject to occur in the future, charges such as plant impact fees which are collected in advance for future improvements which the Commission has historically approved for such purposes, are by definition collected in advance of future plant improvements. The Company provided support for its proposed plant impact fee to show the Commission that certain improvements are necessary in the future. The Commission is of the opinion that such a charge for new customers connecting to the system is appropriate since it is the addition of new customers which can cause the need for plant expansion or modification and that the collection of the fee in advance helps the Company to accumulate funds which can be used in the future to make these improvements without burdening the ratepayers or to some extent lessening the burden on the ratepayers.

A new fee in the form of a "customer account charge" of \$25 was proposed for the Commission's approval. The Company provided information that this fee was a one-time fee to defray the set up costs of initiating service. The Commission finds this charge to be reasonable and approves same.

Another new charge proposed by Wild Dunes was a reconnection charge of \$35 for those customers disconnected for any reason set forth in R.103-532.4. The Company agreed on cross-examination that it intended to conform to the water rules in R.103-732.5 and that

its proposal should be amended accordingly. The Commission herein finds the \$35 reconnection fee as being reasonable and approves same. Additionally, the Company's proposal provided that if a customer requested to be reconnected within nine months of disconnection, the Company would be allowed to charge that customer the BFC for those months. This would help eliminate part-time residents from disconnecting their service to avoid paying for water service even though the Company's facilities are available and ready to provide service. Based on this rationale, the Commission approves this proposal.

The Commission finds that the other proposals in the Company's rate schedule for water service do not necessarily affect Wild Dunes' operating margin, but primarily set forth the Company's policies in regard to various situations. The Commission has reviewed these policies and finds that they should be approved with one exception. The Company proposes that as to the extension of utility service lines and mains that it "shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system." This policy is inconsistent with the Commission's determination in Order No. 84-890, issued October 30, 1984, in Docket No. 84-55-S, Application of Fripp Island Sewer System, Inc. for approval of a new schedule of rates and charges for sewer service provided to its customers. There, the Commission enunciated its finding that a utility had no obligation to extend its service lines and mains to serve a customer only if it is not

"economically feasible" to do so. The utility has the regulatory benefit of being the monopoly service provider and should strive to provide service to its customers within the confines of its service area if it is economically feasible to do so. Therefore, the Commission will amend that portion of the Company's rate schedule as reflected in Appendix A, page 3.

SEWER

The Company presently charges its sewer customers 100% of the water bill per month for sewer service. The Company proposes to charge a BFC of \$9.00/month per unit or SFE for residential and commercial customers, respectively. The Company proposes a commodity charge of \$3.02/1,000 gallons of water consumed. To achieve the approved operating margin and level of revenues, the proposed commodity charge of \$3.02 should be reduced to \$2.80/1,000 gallons of water consumed for both residential and commercial customers.

Property owners were offered the convenience of the utility billing the tenant for sewerage service. This is permitted by the Commission's Rules under certain conditions. The Commission will amend the Company's proposal to conform with R.103-535(0), and the amendment is reflected in Appendix A, p. 4.

Wild Dunes proposed to restructure its sewer tap fees and service connection fee for both its residential and commercial customers. The Company proposes a sewer service connection charge of \$100/SFE and a plant impact fee of \$700/SFE. This represents the Company's recognition that the sewer service connection fee

represents the cost of providing the sewer tap or connection to a new customer and the plant impact fee represents the cost of the Company in the form of plant capacity that the new customer takes from the existing system. The Commission finds that the sewer connection fee and plant impact fee should be approved.

The Company supplied the Commission with information relating to future improvements of a substantial nature which the Company would be required to perform. While the Commission does not set monthly rates on items that are not known and measurable and are subject to occur in the future, charges such as plant impact fees which are collected in advance before future improvements which the Commission has historically approved for such purposes, are by definition collected in advance of future plant improvements. The Company provided support for its proposed plant impact fee to show the Commission that certain improvements are necessary in the future. The Commission is of the opinion that such a charge for new customers connecting to the system is appropriate since it is the addition of new customers which can cause the need for plant expansion or modification and that the collection of the fee in advance helps the Company to accumulate funds which can be used in the future to make these improvements without burdening the ratepayers or to some extent lessening the burden on the ratepayers.

A new fee in the form of a "customer account charge" of \$25 was proposed for the Commission's approval. The Company provided information that this fee was a one-time fee to defray the set up

costs of initiating service. The Commission finds this charge to be reasonable and approves same. The Company proposed that this charge would be waived if the customer also takes water service.

Another new charge proposed by Wild Dunes was a reconnection charge of \$250 for those customers disconnected pursuant to R.103-532.4. The Company also proposed that customers requesting to be reconnected within nine months of disconnection be charged the monthly BFC for the period disconnected. This would help eliminate part-time residents from disconnecting service to avoid paying for sewer service even though the Company's facilities are available and ready to provide service. The Commission finds both the rate and the policy to be reasonable and approves same.

The Commission finds that the other proposals in the Company's rate schedule for sewer service do not necessarily affect Wild Dunes' operating margin, but primarily set forth the Company's policies in regard to various situations. The Commission has reviewed these policies and finds that they should be approved with one exception. The Company proposes that as to the extension of utility service lines and mains that it "shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its sewer system." This policy is inconsistent with the Commission's determination in Order No. 84-890, issued October 30, 1984, in Docket No. 84-55-S, Application of Fripp Island Sewer System, Inc. for approval of a new schedule of rates and charges for sewer service provided to its customers. There the Commission enunciated its finding that a

utility had no obligation to extend its service lines and mains to serve a customer only if it is not "economically feasible" to do so. The utility has the regulatory benefit of being the monopoly provider and should strive to provide service to its customers within the confines of its service area if it is economically feasible to do so. Therefore, the Commission will amend that portion of the Company's rate schedule as reflected in Appendix A, page 6.

The Commission finds and concludes that the rates and charges approved herein achieve a balance between the interest of the Company and those of its affected customers. This results in a reasonable attainment of our ratemaking objectives in light of applicable statutory safeguards.

IT IS THEREFORE ORDERED:

1. That the proposed schedule of rates and charges by the Company are found to be unreasonable and are hereby denied.
2. That the schedule of rates and charges attached hereto as Appendix A, be, and hereby are, approved for service rendered on or after the date of this Order, and the schedules be, and are hereby deemed to be filed with the Commission pursuant to S.C. Code Ann., §58-5-240 (1976), as amended.
3. That should such schedule not be placed in effect until three (3) months of the effective date of this Order, such schedule as contained herein shall not be charged without written permission from the Commission.
4. That the Company shall maintain its books and records for

sewer operations in accordance with the NARUC Uniform System of Accounts for Class B Water and Sewer Utilities, as adopted by this Commission.

5. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Chairman

ATTEST:


Deputy Executive Director

(SEAL)

WILD DUNES UTILITIES, INC.

DOCKET NO. 89-601-W/S - ORDER NO. 90-650

JULY 3, 1990

APPENDIX A

WATER

MONTHLY CHARGES

Residential - Monthly charge per
single-family house, condominium,
mobile home or apartment unit: \$9.00

Commodity Charge: \$2.20 per 1,000 gals.

Commercial - Monthly Charge \$9.00 per SFE

Commodity Charge: \$2.20 per 1,000 gals.

IRRIGATION CHARGES

Residential & Commercial - \$2.20 per 1,000 gallons

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

All meters will be read and bills rendered on a bimonthly basis.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

2. NON-RECURRING CHARGES

a. Water service connection charge per
single-family equivalent \$100.00

b. Plant Impact fee per single-family
equivalent \$700.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

3. ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Customer Account Charge: A fee of \$25 shall be charged as a one-time fee to defray the costs of initiating service.
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of \$35 shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. The amount of the reconnection fee shall be in accordance with R.103-732.5 and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Tax Multiplier

Except as otherwise provided by contract approved by South Carolina Public Service Commission, amounts paid or transferred to the utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are water service connection charges and plant impact fees.

7. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

8. Extension of Utility Service Lines and Mains

The Utility shall have no obligation to extend its utility service lines or mains in order to permit any customer to connect to its water system, if it is not economically feasible to do so. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service.

SEWER

MONTHLY CHARGES

Charge for Sewage Collection and Treatment Service

Residential - monthly charge per
single-family house, condominium,
mobile home, or apartment unit: \$ 9.00 per unit

Commodity Charge: \$ 2.80 per 1,000
gallons of water consumption

Commercial - monthly charge: \$ 9.00 per SFE

Commodity Charge: \$ 2.80 per 1,000
gallons of water consumption

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

WILD DUNES UTILITIES, INC.
APPENDIX A
PAGE FOUR

In the case of a landlord/tenant relationship where the tenant is the customer, the Utility may require the landlord to execute an agreement wherein such landlord agrees to be responsible for all charges billed to that premises in accordance with the approved tariffs and the Rules of the Commission, and said account shall be considered the landlord's and tenant's account. In the event the landlord refuses to execute such an agreement, the Utility may not discontinue service to the premises unless and until the tenant becomes delinquent on his account or until the premises are vacated. The Utility may discontinue service pursuant to R.103-535.1 if the account is delinquent or may discontinue service at the time the premises are vacated and the utility shall not be required to furnish service to the premises until the landlord has executed the agreement, and paid any reconnection charges.

2. NON-RECURRING CHARGES

- a. Sewer service connection charge per single-family equivalent: \$100.00
- b. Plant Impact fee per single-family equivalent: \$700.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

3. NOTIFICATION, ACCOUNT SET-UP AND RECONNECTION CHARGES

- a. Customer Account Charge: A fee of twenty-five dollars (25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnection service which has been disconnected for any reason set forth in

Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4. and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnections will be charged the monthly base facility charge for the service period they were disconnected.

- c. Notification Fee: A fee of four dollars (\$4.00) shall be charged to each customer to whom the utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the costs.

4. Billing Cycle

Recurring charges will be billed bimonthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Tax Multiplier

Except as otherwise provided by contract approved by South Carolina Public Service Commission, amounts paid or transferred to the utility by customers, builders, developers or others, either in the form of cash or property, shall be increased by a cash payment in an amount equal to the income taxes owed on the cash or property transferred to the utility by customers, builders, developers, or others and properly classified as a contribution or advance in aid of construction in accordance with the Uniform System of Accounts. Included in this classification are water service connection charges and plant impact fees.

7. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has not been defined by the United States Environmental Protection Agency ("EPA") OR THE SOUTH CAROLINA DEPARTMENT OF HEALTH AND ENVIRONMENTAL CONTROL (DHEC) as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR §129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR §403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the utility for all damages and costs, including reasonable attorney's fees, incurred by the utility as a result thereof.

8. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. Extension of Utility Service Lines and Mains

The Utility shall have no obligation to extend its utility service lines or mains in order to permit any customer to connect to its sewer system, if it is not economically feasible to do so. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service.